Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

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~~FINANCE, BUDGET AND AUDIT COMMITTEE~~
~~APRIL 13, 2016~~
EXECUTIVE MANAGEMENT COMMITTEE
APRIL 14, 2016

SUBJECT: PROPERTY INSURANCE PROGRAM

ACTION: PURCHASE ALL RISK PROPERTY AND BOILER AND MACHINERY INSURANCE

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to **negotiate and award All Risk Property and Boiler and Machinery Insurance Policies** for all property at the current policy limits at a not to exceed price of $2.4 million for the 12-month period May 10, 2016 through May 10, 2017.

ISSUE

The All Risk Property and Boiler and Machinery insurance policies expire on May 10, 2016.

DISCUSSION

Property insurance protects against losses to our structures and improvements, which are valued at approximately $11.1 billion up from last year's $10.0 billion. The increase in total insured value is due to the addition of the Exposition Phase II, Gold Line Foothill Extension Phase I light rail lines/maintenance facility, new light rail vehicles and general replacement cost growth. Property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating assets.

Our insurance broker, Wells Fargo Insurance Services ("Wells Fargo"), marketed the property program to qualified insurance carriers to obtain final property insurance pricing with coverage limits of $400 million. Coverage for the Expo and Gold Line extensions was included on a two month prorated basis in last year's program with little impact to the cost of our program. This year's program includes both new light rail extensions for the full year. Quotations for both property insurance programs were received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims.

The Recommended Program secures the All Risk deductible at $250,000 with no earthquake coverage and a flood deductible at 5% per location subject to a $250,000 minimum. If a loss exceeds the deductible, All Risk coverage is provided up to $400 million per occurrence for losses except for flood related damages that are covered up to $150 million. The program is the same as the prior year program. Attachment A is a premium history. Attachment B shows the outline of the recommended program structure.

The recommended program does not include earthquake coverage. We received quotes at $4.5 million for $50 million in limits. LACMTA has not purchased earthquake coverage in previous years. In the event of a major disaster, we believe funding would be available through Federal and State sources to restore public transportation in Southern California. The lack of earthquake coverage is consistent with decisions made by other large government agencies including most Los Angeles County and City locations, Department of Water and Power, Metropolitan Water District and San Francisco BART.

We evaluated terrorism coverage options this renewal cycle and have not opted to purchase the coverage. Terrorism coverage is available but does not appear to be cost effective at a quoted cost of around $734,000. The Terrorism Risk Insurance Act (TRIA) which provides government support by providing mechanisms for spreading losses across policyholders was reauthorized by Congress in January 2015 after the program expired. In the past, we rejected this coverage because of the high likelihood of federal and state funding to restore transportation services as a result of a serious terrorism incident.

The current and recommended program of insurance are layered structures. Several insurance carriers participate in the program with each contributing a portion of coverage which maintains a diversified portfolio of insurance carriers. Continual monitoring through internal methods, as well as updates provided by Wells Fargo, ensure that all carriers maintain the required financial ratings indicated by financial reporting agencies and as determined by A.M. Best.

In February and March, Wells Fargo contacted multiple domestic and foreign insurance providers to present our property risks and supplemental data. Wells Fargo provided an overview of the Metro transit system during discussions with the underwriters, including our extensive security infrastructure, fire protection, loss control and minimal risk of flood exposures. Wells Fargo provided information and statistics on system operations, assets and our excellent loss history over the past sixteen years with no fixed property insurable events (only two losses of rolling stock at $1,034,000 and only one loss of a non-revenue vehicle at $75,000).

The LACMTA property program continues to be well received by insurers due to our favorable loss history, the growth of the account from $6.7 billion in values in 2007 to $11.1 billion for this renewal and no earthquake insurance is purchased. As such, Wells Fargo presented the submission to competing insurers in order to create additional competition in the insurance program. The marketing effort resulted in maintaining our incumbent carriers for the recommended program. Our collaborative marketing effort through Wells Fargo in addition to our noteworthy evidence of exceptional loss experience resulted in a one and one-half percent premium decrease for the recommended program even though the new light rail line extensions were added on a full term basis. Our rate per million dollars of insurable value continues to reflect historic lows ($216 for the recommended program versus $239 for last year’s program or a rate reduction of 9.6% per million dollars of insured value).

“Property has been very competitive for a couple of years now and we think pricing will continue to decline as long as there is not a major catastrophe,” said Jasper Cooper, assistant vice president and analyst at Moody’s Investors Service. Christopher Lang, Marsh’s U.S. placement leader, observed that property coverage is very competitive, noting that he expects the U.S. market to see single-digit decreases of 5% to 7.5% in 2016.

This year’s renewal reflects our favorable insurability and ability to take full advantage of market trends irrespective of our increase in total insured value.

DETERMINATION OF SAFETY IMPACT

Approval of this procurement will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

The funding for two months of $400,000 for this action is included in the FY16 budget in cost center 0531, Risk Management - Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 - Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 - Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). The remaining ten months of premiums will be included in the FY17 budget, cost center 0531, Risk Management - Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 - Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 - Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). In FY16, an estimated $2.4 million will be expensed for property insurance.

Impact to Budget

There is no impact on the FY16 budget. No other sources of funds were considered for this activity because these are the funds that benefit from the insurance. This activity will result in a negligible change to operating costs from the prior fiscal year.

ALTERNATIVES CONSIDERED

The following table compares the current program, the recommended program and two options, which are not recommended. Based upon our favorable renewal and loss histories, we recommend continuing the current program of insurance as the most cost effective and prudent program. Option B is not recommended because the high cost of the earthquake premium does not justify the benefit of the coverage.

	Current Program	Recommended Program (Quota Share Primary)	Recommended Program – With Earthquake (Option B)
Deductibles	$250,00 All Risk / 5% of location value for Flood	$250,00 All Risk / 5% of location value for Flood	$250,000 All Risk/5% of structure value for Earthquake and Flood
All Risk Limits	$400 Million	$400 Million	$400 Million
Flood Limits	$150 Million	$150 Million	$150 Million
Earthquake Limits	None	None	$50 Million after first 5% per location deductible
Terrorism	None	None	None
Total not to Exceed or Actual Premium	$2,364,558	$2,329,787	$6,829,787

NEXT STEPS

Upon Board approval of this action, we will advise Wells Fargo to proceed with placement of the property insurance program outlined herein effective May 10, 2016.

ATTACHMENTS

Attachment A - Premium History
Attachment B - Recommended Pricing and Carriers

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